

CITY OF MALVERN

**INDEPENDENT AUDITORS' REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS**

JUNE 30, 2011

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City of Malvern

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Toni Michel	Mayor	December 2011
Jessica Winstead	Council Member	December 2011
Doug Shere	Council Member	December 2013
Susan Dunmire	Council Member	December 2011
Shane Sayers	Council Member	December 2011
Lantz Powels	Council Member	December 2011
Shari Mueller	City Clerk	Indefinite
T. J. Pattermann	Attorney	Indefinite

City of Malvern



Marilyn Schroer, CPA
Diane McGrain, CPA
Jim Menard, CPA

November 14, 2011

Independent Auditors' Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities and each major fund of the City of Malvern, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Malvern's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, and each major fund of the City of Malvern as of June 30, 2011, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

Continued...

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November 14, 2011
Independent Auditors' Report
City of Malvern

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2011 on our consideration of the City of Malvern's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 11 and 28 through 30 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Malvern's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the six years ended June 30, 2010 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Schroeder & Associates, P.C.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Malvern provides this Management's Discussion and analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2011. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2011 FINANCIAL HIGHLIGHTS

Receipts of the City's governmental activities decreased 13%, or approximately \$108,000, from fiscal 2010 to fiscal 2011. Operating grants decreased approximately \$128,000 and capital grants increased approximately \$8,000.

Disbursements decreased 21%, or approximately \$184,000, in fiscal 2011 from fiscal 2010. Capital projects decreased by approximately \$184,000.

The City's total cash basis net assets increased by 66%, or \$81,562, from June 30, 2010 to June 30, 2011. Of this amount, the assets of the governmental activities increased \$64,284, and business type activities increased by \$17,278.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-Wide Financial Statement

One of the most important questions asked about the City's finances is, "is the City as a whole better off or worse off as a result of the year's activities." The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- ❖ Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- ❖ Business Type Activities include the sanitary sewer system. This activity is financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basis services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt-Service Fund, and 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operation and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the water and sewer funds considered to be major funds of the City.

The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

Reconciliations between the government-wide statement and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from \$14 thousand to \$78 thousand. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)			
		Year Ended June 30,	
		2011	2010
Receipts:			
Program receipts:			
Charges for service	\$	113	\$ 108
Operating grants, contributions and restricted interest		183	311
Capital grants, contributions and restricted interest		9	1
General receipts:			
Property tax		375	375
Tax increment financing collections		4	-
Local option sales tax		70	67
Grants and contributions not restricted to specific purpose		1	1
		<u>755</u>	<u>863</u>
Disbursements and other financing uses:			
Public safety		63	62
Public works		229	251
Culture and recreation		170	162
Community and economic development		10	1
General Government		93	101
Debt service		126	114
Capital projects		-	184
		<u>691</u>	<u>875</u>
Net change in cash basis net assets		64	(12)
Cash basis net assets beginning of year		<u>14</u>	<u>26</u>
Cash basis net assets end of year	\$	<u>78</u>	\$ <u>14</u>

The City's total receipts for governmental activities decreased by 13%, or \$108,000. The total cost of all programs and services decreased by approximately 21%, or \$184,000. The decrease in receipts was primarily due to decreases in operating and capital grants.

The cost of all governmental activities this year was \$691 thousand compared to \$875 thousand last year. The City spent fewer monies on housing projects.

Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands)			
		Year Ended June 30,	
		2011	2010
Operating receipts			
Charges for service:			
Water	\$	150	\$ 132
Sewer		125	109
General receipts:			
Miscellaneous		4	3
Total receipts		<u>279</u>	<u>244</u>
Disbursements:			
Water		136	140
Sewer		126	131
		<u>262</u>	<u>271</u>
Net change in cash basis net assets		17	(27)
Cash basis net assets beginning of year		<u>110</u>	<u>137</u>
Cash basis net assets end of year	\$	<u>127</u>	\$ <u>110</u>

Total business type activities receipts for the fiscal year were \$279 thousand compared to \$244 thousand last year. The cash balance increased by \$17 thousand.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Malvern completed the year, its governmental funds reported a combined fund balance of \$78,131, an increase of \$64,284 from last year's total of \$13,847. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- ❖ The General Fund cash balance increased \$40,372 from the prior year of \$(78,982) to (\$38,610) due to an interfund transfer from Local Option Sales Tax Fund.
- ❖ The Road Use Tax Fund increased \$16,915, Employee Benefits Fund decreased \$2,409, and Local Option Sales Tax Fund increased \$9,824. The Library Memorial Trust Fund decreased \$438. The Urban Renewal Tax Increment fund did not change.
- ❖ The Debt Service Fund cash balance decreased by \$8,770 to \$4,377 during the fiscal year.
- ❖ The Capital Projects Fund increased \$8,790 to \$(47,592) during the fiscal year.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- ❖ The Sewer Fund cash balance decreased by \$703 to \$(7,347) during the fiscal year.
- ❖ The Water Fund cash balance increased by \$17,981 to \$134,751 during the fiscal year.

BUDGETARY HIGHLIGHTS

Over the course of the year, the culture and recreation budget was exceeded by \$4,696 due to additional park and pool maintenance.

DEBT ADMINISTRATION

At June 30, 2011, the City had \$1,060,904 in bonds and other long-term debt, compared to approximately \$1,192,705 last year as shown below:

	Outstanding Debt at Year End	
	(Expressed in Thousands)	
	Year Ended June 30,	
	2011	2010
General obligation notes	\$ 505	\$ 603
Revenue notes	556	590
	<u>\$ 1,061</u>	<u>\$ 1,193</u>

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt was \$505,000 at fiscal year end, which is significantly below the City's constitutional debt limit of \$2.2 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Malvern's elected and appointed officials and citizens considered many factors when setting the fiscal year 2012 budget, tax rates and fees that will be charged for various City activities. The City decreased the tax rates approximately .01728 from the previous year.

These indicators were taken into account when adopting the budget for fiscal year 2012. The debt service levy was decreased from 15.87617 in 2011 to 15.85889 in 2012, for a difference of .01728. This was decreased due to the new bonding for the street sweeper/swimming pool project in prior years.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Shari Mueller, City Clerk, 107 E. 4th Street, Malvern, Iowa.

City of Malvern
Basic Financial Statements

City of Malvern
Statement of Activities and Net Assets – Cash Basis
As of and for the year ended June 30, 2011

	Disbursements	Charges for Service	Program Receipts Operating Grants Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 62,699	731	-	-
Public works	228,925	75,975	147,465	-
Culture and recreation	170,895	34,193	32,175	-
Community and economic development	10,034	-	-	-
General government	92,768	2,125	3,709	-
Debt service	126,358	-	-	-
Capital projects	-	-	-	8,790
Total governmental activities	691,679	113,024	183,349	8,790
Business type activities:				
Water	136,358	150,333	-	-
Sewer	126,036	125,042	-	-
Total business type activities	262,394	275,375	-	-
Total	\$ 954,073	388,399	183,349	8,790
General Receipts:				
Property tax levied for:				
General purposes				
Employee benefits				
Debt service				
Tax increment financing collections				
Local option sales tax				
Grants and contributions not restricted to specific purpose				
Unrestricted interest on investments				
Rent				
Miscellaneous				
Total general receipts				
Change in cash basis net assets				
Cash basis net assets beginning of year				
Cash basis net assets end of year				
Cash Basis Net Assets:				
Restricted:				
Expendable:				
Streets				
Employee benefits				
Urban renewal purposes				
Property tax relief				
Library trust				
Debt service				
Unrestricted				
Total cash basis net assets				

See notes to financial statements

Net (Disbursement) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(61,968)	-	(61,968)
(5,485)	-	(5,485)
(104,527)	-	(104,527)
(10,034)	-	(10,034)
(86,934)	-	(86,934)
(126,358)	-	(126,358)
8,790	-	8,790
(386,516)	-	(386,516)
-	13,975	13,975
-	(994)	(994)
-	12,981	12,981
(386,516)	12,981	(373,535)
\$ 243,291	-	243,291
27,045	-	27,045
104,588	-	104,588
3,925	-	3,925
69,824	-	69,824
1,366	-	1,366
299	582	881
462	-	462
-	3,715	3,715
450,800	4,297	455,097
64,284	17,278	81,562
13,847	109,946	123,793
\$ 78,131	127,224	205,355
\$ 95,514	-	95,514
26,807	-	26,807
16,039	-	16,039
19,481	-	19,481
2,115	-	2,115
4,377	-	4,377
(86,202)	127,224	41,022
\$ 78,131	127,224	205,355

City of Malvern
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances - Governmental Funds
As of and for the year ended June 30, 2011

	General	Road Use Tax	Employee Benefits	Special Local Option Sales Tax
Receipts				
Property tax	\$ 232,756	-	25,979	-
Tax increment financing collections	-	-	-	-
Other city tax	10,535	-	1,066	69,824
Licenses and permits	2,764	-	-	-
Use of money and property	6,504	-	-	-
Intergovernmental	14,839	134,465	-	6,000
Charges for service	110,260	-	-	-
Special assessments	-	-	-	-
Miscellaneous	9,721	-	-	-
Total receipts	387,379	134,465	27,045	75,824
Disbursements				
Operating:				
Public safety	62,699	-	-	-
Public works	95,248	117,550	16,127	-
Culture and recreation	154,182	-	9,328	6,000
Community and economic development	6,109	-	-	-
General government	88,769	-	3,999	-
Debt service	-	-	-	-
Capital projects	-	-	-	-
Total disbursements	407,007	117,550	29,454	6,000
Excess (deficiency) of receipts over (under) disbursements	(19,628)	16,915	(2,409)	69,824
Other financing sources (uses):				
Operating transfers in	60,000	-	-	-
Operating transfers out	-	-	-	(60,000)
Total other financing sources (uses)	60,000	-	-	(60,000)
Net change in cash balances	40,372	16,915	(2,409)	9,824
Cash balances beginning of year	(78,982)	78,599	29,216	9,657
Cash balances end of year	\$ (38,610)	95,514	26,807	19,481
Cash Basis Fund Balances				
Restricted for:				
Streets	\$ -	95,514	-	-
Employee benefits	-	-	26,807	-
Property tax relief	-	-	-	19,481
Library	-	-	-	-
Urban renewal	-	-	-	-
Debt service	-	-	-	-
Unassigned	(38,610)	-	-	-
Total cash basis fund balances	\$ (38,610)	95,514	26,807	19,481

See notes to financial statements

Exhibit B

Revenue				
Library Memorial Trust	Urban Renewal Tax Increment	Debt Service	Capital Projects	Total
-	-	100,502	-	359,237
-	3,925	-	-	3,925
-	-	4,086	-	85,511
-	-	-	-	2,764
-	-	-	-	6,504
-	-	11,000	8,790	175,094
-	-	-	-	110,260
-	-	-	-	-
947	-	2,000	-	12,668
947	3,925	117,588	8,790	755,963
-	-	-	-	62,699
-	-	-	-	228,925
1,385	-	-	-	170,895
-	3,925	-	-	10,034
-	-	-	-	92,768
-	-	126,358	-	126,358
-	-	-	-	-
1,385	3,925	126,358	-	691,679
(438)	-	(8,770)	8,790	64,284
-	-	-	-	60,000
-	-	-	-	(60,000)
-	-	-	-	-
(438)	-	(8,770)	8,790	64,284
2,553	16,039	13,147	(56,382)	13,847
2,115	16,039	4,377	(47,592)	78,131
-	-	-	-	95,514
-	-	-	-	26,807
-	-	-	-	19,481
2,115	-	-	-	2,115
-	16,039	-	-	16,039
-	-	4,377	-	4,377
-	-	-	(47,592)	(86,202)
2,115	16,039	4,377	(47,592)	78,131

City of Malvern
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds
As of and for the year ended June 30, 2011

	Enterprise Funds		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 150,333	125,042	275,375
Operating disbursements:			
Business type activities	136,358	72,861	209,219
Excess (deficit) of operating receipts over operating disbursements	13,975	52,181	66,156
Non-operating receipts (disbursements):			
Interest on investments	291	291	582
Miscellaneous	3,715	(1,475)	2,240
Debt service	-	(51,700)	(51,700)
Total non-operating receipts (disbursements)	4,006	(52,884)	(48,878)
Net change in cash balances	17,981	(703)	17,278
Cash balances beginning of year	116,590	(6,644)	109,946
Cash balances end of year	\$ 134,751	(7,347)	127,224
Cash Basis Fund Balances			
Unrestricted	\$ 134,571	(7,347)	127,224

See notes to financial statements

City of Malvern
Notes to Financial Statements
June 30, 2011

NOTE (1) Summary of Significant Accounting Policies

The City of Malvern is a political subdivision of the State of Iowa located in Mills County. It was first incorporated in 1869 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture and recreation, community and economic development, and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Malvern has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Mills County Assessor's Conference Board, Mills County Emergency Management Commission and Mills County E911 Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in the following categories/components:

City of Malvern
Notes to Financial Statements
June 30, 2011

NOTE (1) Summary of Significant Accounting Policies - Continued

B. Basis of Presentation - Continued

Expendable restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Employee Benefit Fund is used to account for property taxes levied to pay employee benefits.

City of Malvern
Notes to Financial Statements
June 30, 2011

NOTE (1) Summary of Significant Accounting Policies - Continued

C. Measurement Focus and Basis of Accounting – Continued

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances:

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned – Amounts the Council intends to use for specific purposes.

Unassigned – All amounts not included in other spendable classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2011, disbursements exceeded the amounts budgeted in the culture and recreation function.

City of Malvern
Notes to Financial Statements
June 30, 2011

NOTE (1) Summary of Significant Accounting Policies - Continued

F. Property Tax Calendar

The City's property tax rates were extended against the assessed valuation of the City as of January 1, 2009, to compute the amounts which became liens on property on July 1, 2010. These taxes were due and payable in two installments on September 30, 2010 and March 31, 2011, at the Mills County Treasurer's Office. These taxes are recognized as income to the City when they are received from the county.

NOTE (2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2010 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City's cash, which consists of cash in bank and certificates of deposit, totaled \$205,355.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board (GASB) No. 3, as amended by Statement No. 40.

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

City of Malvern
Notes to Financial Statements
June 30, 2011

NOTE (3) Notes Payable

Annual debt service requirements to maturity of general obligation notes are as follows:

Year Ended June 30,	General Obligation Notes		Revenue Note		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 96,374	24,209	36,000	16,680	132,374	40,889
2013	100,874	19,527	37,000	15,600	137,874	35,127
2014	105,500	14,626	38,000	14,490	143,500	29,116
2015	88,259	9,499	39,000	13,350	127,259	22,849
2016	86,675	5,125	40,000	12,180	126,676	17,305
2017-2021	27,195	1,616	218,000	42,210	252,000	43,826
2022-2024	-	-	148,000	8,970	148,000	8,970
Total	\$ 504,877	74,602	556,000	123,480	1,067,683	198,082

Interest costs paid during the year ended June 30, 2011 totaled \$46,257.

The Code of Iowa requires that principal and interest on general obligation bonds be paid from the Debt Service Fund.

The City has a general obligation debt limit of approximately \$2,225,000 which was not exceeded during the year ended June 30, 2011.

Revenue Notes - The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$799,000 in sewer revenue notes issued in June 2004. Proceeds from the notes provided financing for the construction of improvements to the sewer treatment plant. The notes are payable solely from sewer customer net receipts and are payable through 2024. The annual principal and interest payments on the notes were ninety-nine percent of net receipts. The total principal and interest remaining to be paid is \$679,480. For the current year, principal and interest paid and total customer net receipts were \$51,700 and \$52,181, respectively.

The resolutions providing for the issuance of the sewer revenue notes include the following provisions:

- a) The notes will only be redeemed from the future earnings of the sewer enterprise activity, and the note holders hold a lien on the future earnings of the fund.
- b) Sufficient monthly transfers shall be made to the sewer revenue note sinking account for the purpose of making the note principal and interest payments when due.

The City has complied with the provisions of the resolution. However, net receipts were insufficient to cover debt service payments.

City of Malvern
Notes to Financial Statements
June 30, 2011

NOTE (4) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 4.50% of their annual covered salary and the City is required to contribute 6.95% of annual covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2011, 2010, and 2009, were \$11,018, \$9,642, and \$7,785, respectively, equal to the required contributions for each year.

NOTE (5) Compensated Absences

City employees accumulate vacation days for subsequent use or for payment at the end of the calendar year during which it was required to be taken. These accumulations are not recognized as disbursements by the City until used or paid. Employees are entitled to payment of accrued vacation upon termination, retirement, death, or disability. The City's approximate liability for earned vacation benefits payable to employees at June 30, 2011, primarily relating to the General Fund is \$2,877. This liability is computed on rates of pay effective as of June 30, 2011.

NOTE (6) Other Postemployment Benefits (OPEB)

The City operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their spouses. There are 3 active and 0 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug coverage is provided through a fully-insured plan with Wellmark. The same premium is paid for retirees under age 65 for the medical/prescription drug benefit as active employees, which results in an implicit subsidy and an OPEB liability.

The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premium for the City and plan members is \$687 for single coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2011, there were no plan members eligible for benefits.

City of Malvern
Notes to Financial Statements
June 30, 2011

NOTE (7) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2011 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue: Local Option Sales Tax	\$ <u>60,000</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse resources.

NOTE (8) Commitments

Law Enforcement Contract

The City has contracted with Mills County, Iowa whereby the County provides law enforcement services within the City of Malvern through the office of the Sheriff of Mills County, Iowa through June 30, 2012 for an annual amount of \$16,239.

Administrative Services Contract

The City renewed its agreement with PeopleService, whereby the City engages PeopleService to manage, operate, and maintain the City's water and wastewater utility system. The Company in turn refunds to the City all cost savings on non-payroll operating expenses. The monthly contracted fee is \$8,048, plus \$2.50 per account bill, with an annual adjustment equaling the change in Consumer Price Index for All Urban Consumers (CPI-U) plus one percent, effective through June 30, 2015.

As required in this agreement, PeopleService computes, bills, collects and transmits to the City the revenues from water, sewer and landfill usage.

Rescue Services Contract

Malvern Volunteer Rescue, Inc. is a separate entity established to provide rescue services. In July 1989, the City signed an ambulance service contract with the Organization, which has been extended for successive one year terms. The Organization is required to provide 24 hour phone service, all insurance, maintenance, repairs and supplies for City owned rescue unit vehicles and trained personnel to respond to rescue calls. The City is required to pay the Organization \$1,104 per month for these services.

Communication Services

The City has a 28E agreement with Mills County for the purpose of providing emergency communication services, effective through June 30, 2012. The City's share of the support is \$9,136 for the year ending June 30, 2012.

City of Malvern
Notes to Financial Statements
June 30, 2011

NOTE (9) Risk Management

The City of Malvern is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE (10) Deficit Fund Balances

The General Fund had a deficit balance of \$38,610 at June 30, 2011. The deficit will be eliminated with property tax collections, local option sales tax receipts and reduction in spending.

The Capital Projects Fund had a deficit balance of \$47,592 at June 30, 2011. The deficit will be eliminated with grant reimbursements.

The Sewer Fund had a deficit balance of \$7,347 at June 30, 2011. The deficit will be eliminated with charges for services.

Required Supplementary Information

City of Malvern
 Budgetary Comparison Schedule
 of Receipts, Disbursements, and Changes in Balances -
 Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds
 Required Supplementary Information
 Year ended June 30, 2011

	Governmental Funds Actual	Proprietary Funds Actual	Net
Receipts			
Property tax	\$ 359,237	-	359,237
Tax increment financing	3,925	-	3,925
Other city tax	85,511	-	85,511
Licenses and permits	2,764	-	2,764
Use of money and property	6,504	582	7,086
Intergovernmental	175,094	-	175,094
Charges for service	110,260	275,375	385,635
Miscellaneous	12,668	3,715	16,383
Total receipts	<u>755,963</u>	<u>279,672</u>	<u>1,035,635</u>
Disbursements			
Public safety	62,699	-	62,699
Public works	228,925	-	228,925
Culture and recreation	170,895	-	170,895
Community and economic development	10,034	-	10,034
General government	92,768	-	92,768
Debt service	126,358	-	126,358
Business type activities	-	262,394	262,394
Total disbursements	<u>691,679</u>	<u>262,394</u>	<u>954,073</u>
Excess of receipts over disbursements	64,284	17,278	81,562
Balances beginning of year	<u>13,847</u>	<u>109,946</u>	<u>123,793</u>
Balances end of year	\$ <u>78,131</u>	<u>127,224</u>	<u>205,355</u>

See accompanying independent auditors' report

Budgeted Amounts		Budget to Net Variance
Original	Final	
366,506	366,506	(7,269)
-	3,925	-
79,357	79,357	6,154
3,925	3,925	(1,161)
4,150	4,150	2,936
168,508	182,529	(7,435)
424,200	424,200	(38,565)
15,500	15,500	883
<u>1,062,146</u>	<u>1,080,092</u>	<u>(44,457)</u>
64,663	64,663	1,964
229,402	229,402	477
158,983	166,199	(4,696)
4,750	10,175	141
98,050	98,050	5,282
119,401	126,358	-
313,605	313,605	51,211
<u>988,854</u>	<u>1,008,452</u>	<u>54,379</u>
73,292	71,640	9,922
<u>167,807</u>	<u>167,807</u>	<u>(44,014)</u>
<u>241,099</u>	<u>239,447</u>	<u>(34,092)</u>

City of Malvern
Notes to Required Supplementary Information – Budgetary Reporting
June 30, 2011

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board (GASB) Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon major classes of disbursements known as functions, not by fund or fund type. These functions are: public safety, public works, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted revenues by \$17,946 and budgeted disbursements by \$19,598. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2011, disbursements exceeded the amount budgeted in the culture and recreation function.

Other Supplementary Information

City of Malvern
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Combining General Fund
As of and for the year ended June 30, 2011

	General	Liberty Memorial Sinking	Park Sinking
Receipts:			
Property tax	\$ 232,756	-	-
Other city tax	10,535	-	-
Licenses and fees	2,764	-	-
Use of money and property	6,316	86	-
Intergovernmental	4,534	-	-
Charges for services	110,260	-	-
Miscellaneous	9,721	-	-
Total receipts	<u>376,886</u>	<u>86</u>	<u>-</u>
Disbursements:			
Operating:			
Public safety	62,699	-	-
Public works	95,248	-	-
Culture and recreation	154,182	-	-
Community and economic development	6,109	-	-
General government	88,769	-	-
Total disbursements	<u>407,007</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts over (under) disbursements	(30,121)	86	-
Other financing sources (uses):			
Operating transfers in	61,410	-	-
Operating transfers out	-	-	-
	<u>61,410</u>	<u>-</u>	<u>-</u>
Net change in cash balances	31,289	86	-
Cash balances beginning of year	<u>(117,632)</u>	<u>6,844</u>	<u>7,101</u>
Cash balances end of year	\$ <u>(86,343)</u>	<u>6,930</u>	<u>7,101</u>

See accompanying independent auditors' report

Library Building	Total
-	232,756
-	10,535
-	2,764
102	6,504
10,305	14,839
-	110,260
-	9,721
<u>10,407</u>	<u>387,379</u>
-	62,699
-	95,248
-	154,182
-	6,109
-	88,769
<u>-</u>	<u>407,007</u>
10,407	(19,628)
-	61,410
<u>(1,410)</u>	<u>(1,410)</u>
<u>(1,410)</u>	<u>60,000</u>
8,997	40,372
<u>24,705</u>	<u>(78,982)</u>
<u>33,702</u>	<u>(38,610)</u>

City of Malvern
Schedule of Indebtedness
Year ended June 30, 2011

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
General obligation notes:			
Downtown sidewalk improvement	Feb 1, 2001	5.00 %	\$ 640,000
Liberty memorial improvement	Jul 1, 2004	4.50 %	100,000
Building	Jan 18, 2007	4.75 %	275,000
Library	Dec 19, 2008	4.50 %	50,000
Revenue note:			
Sewer	Jun 14, 2004	3.00 %	\$ 799,000

See accompanying independent auditors' report

	<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
\$	314,678	-	46,996	267,682	15,154	-
	40,000	-	10,000	30,000	1,800	-
	206,000	-	31,805	174,195	9,713	-
	<u>42,000</u>	<u>-</u>	<u>9,000</u>	<u>33,000</u>	<u>1,890</u>	<u>-</u>
\$	<u>602,678</u>	<u>-</u>	<u>97,801</u>	<u>504,877</u>	<u>28,557</u>	<u>-</u>
\$	<u>590,000</u>	<u>-</u>	<u>34,000</u>	<u>556,000</u>	<u>17,700</u>	<u>-</u>

City of Malvern
Note Maturities
June 30, 2011

General Obligation Notes									
Ending June 30,	Downtown Sidewalk Improvement		Liberty Memorial Building		Library		Essential Corporate Purpose		
	Issued Feb 1, 2001		Issued Jul 1, 2004		Issued Jan 18, 2007		Issued Dec 19, 2008		
	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount	Total
2012	5.00 %	\$ 49,374	4.50 %	\$ 10,000	4.75%	\$ 27,000	4.50 %	\$ 10,000	\$ 96,374
2013	5.00 %	51,874	4.50 %	10,000	4.75%	28,000	4.50 %	11,000	100,874
2014	5.00 %	54,500	4.50 %	10,000	4.75%	29,000	4.50 %	12,000	105,500
2015	5.00 %	57,259	-	-	4.75%	31,000	-	-	88,259
2016	5.00 %	54,675	-	-	4.75%	32,000	-	-	86,675
2017	-	-	-	-	4.75%	27,195	-	-	27,195
Total		\$ 267,682		\$ 30,000		\$ 174,195		\$ 33,000	\$ 504,877

Revenue Note		
Sewer		
Issued Jun 14, 2004		
Year Ending June 30,	Interest Rate	Amount
2012	3.00 %	\$ 36,000
2013	3.00 %	37,000
2014	3.00 %	38,000
2015	3.00 %	39,000
2016	3.00 %	40,000
2017	3.00 %	41,000
2018	3.00 %	42,000
2019	3.00 %	44,000
2020	3.00 %	45,000
2021	3.00 %	46,000
2022	3.00 %	48,000
2023	3.00 %	49,000
2024	3.00 %	51,000
Total		\$ 556,000

See accompanying independent auditors' report

City of Malvern
Schedule of Receipts By Source and Disbursements By Function -
All Governmental Funds
For the Last Seven Years

	2011	2010	2009
Receipts			
Property tax	\$ 359,237	358,456	339,395
Tax increment financing collections	3,925	-	-
Other city tax	85,511	83,416	86,445
Licenses and permits	2,764	1,689	2,360
Use of money and property	6,504	5,514	7,442
Intergovernmental	175,094	290,171	411,173
Charges for service	110,260	106,412	98,861
Special assessments	-	8,657	9,414
Miscellaneous	12,668	8,815	28,993
Total	<u>\$ 755,963</u>	<u>863,130</u>	<u>984,083</u>
Disbursements			
Operating:			
Public safety	\$ 62,699	61,604	63,070
Public works	228,925	251,488	262,079
Culture and recreation	170,895	161,670	194,152
Community and economic development	10,034	649	1,696
General government	92,768	100,918	89,982
Debt service	126,358	114,350	115,918
Capital projects	-	184,301	230,024
Total	<u>\$ 691,679</u>	<u>874,980</u>	<u>956,921</u>

See accompanying independent auditors' report

<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
346,343	312,598	291,091	296,538
-	-	-	-
82,873	83,127	73,964	71,480
1,335	1,067	472	1,300
6,816	11,983	27,374	21,749
170,953	396,241	205,055	368,599
97,093	95,960	99,198	83,860
14,708	10,284	12,731	10,666
26,191	215,279	29,583	99,245
<u>746,312</u>	<u>1,126,539</u>	<u>739,468</u>	<u>953,437</u>
81,892	70,934	72,107	70,772
248,611	250,608	292,794	270,334
183,026	194,648	679,211	157,495
1,382	7,159	53,382	2,646
112,106	141,743	120,676	130,528
134,601	75,750	90,268	62,150
-	630,666	95,475	982,106
<u>761,618</u>	<u>1,371,508</u>	<u>1,403,913</u>	<u>1,676,031</u>

City of Malvern



Marilyn Schroer, CPA
Diane McGrain, CPA
Jim Menard, CPA

November 14, 2011

Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Malvern, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated November 14, 2011. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Malvern's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of City of Malvern's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of City of Malvern's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified a certain deficiency in internal control over financial reporting we consider to be material weakness.

Continued...

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City of Malvern
Independent Auditor's Report on
Internal Control and Compliance

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal controls such that there is a reasonable possibility a material misstatement of the City of Malvern's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in Part I of the accompanying Schedule of Findings as item I-A-11 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Malvern's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

City of Malvern's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit City of Malvern's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Malvern and other parties to whom the City of Malvern may report, including federal awarding agencies and pass through entities, and is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Malvern during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

SCHROER & ASSOCIATES, P.C.

Schroer & Associates, P.C.

City of Malvern
Schedule of Findings
Year Ended June 30, 2011

Part I: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

I-A-11 Segregation of Duties

Comment – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits, posting of the cash receipts to the cash receipts journal, and reconciling are all done by the same person.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances. In addition, the Council should review monthly the Clerk's Report and actual to budget comparisons.

Response – We will implement additional controls.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

City of Malvern
Schedule of Findings
Year Ended June 30, 2011

Part II: Other Findings Related to Statutory Reporting:

II-A-11 Certified Budget

Comment - Disbursements during the year ended June 30, 2011 exceeded the amounts budgeted in the culture and recreation function. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation - The budget should have been amended in sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The budget will be amended in sufficient amounts in the future, if applicable.

Conclusion - Response accepted.

II-B-11 Entertainment Expense

We noted no disbursements for parties, banquets or other entertainment for employees that we believe may constitute an unlawful expenditure from public funds as defined in an Attorney General's opinion dated April 25, 1979.

II-C-11 Travel Expense

No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

II-D-11 Business Transactions

No business transactions were noted between the City and City officials or employees.

II-E-11 Bond Coverage

Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

City of Malvern
Schedule of Findings
Year Ended June 30, 2011

Part II: Other Findings Related to Statutory Reporting Continued:

II-F-11 Council Minutes

Comment – We noted 1 out of 41 transactions tested was not included in the listing for approval of claims in Council minutes.

Recommendation – The City should monitor procedures to insure all claims are properly approved.

Response – We will review our procedures. Claims paid from the Park bank account were occasionally missed on the listing of claims in the minutes before the accounts were added in with the City's.

Conclusion – Response accepted

II-G-11 Enterprise Debt

Comment – Although the City has made the necessary transfers per the sewer bond resolution and has serviced the debt, net receipts were insufficient to service operations and debt service requirements, resulting in a negative unrestricted fund balance.

Recommendation – The City should consider raising sewer rates in order to maintain the fund in sound financial condition.

Response – We will review this further.

Conclusion – Response accepted.

II-H-11 Deposits and Investments

We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.

City of Malvern
Schedule of Findings
Year Ended June 30, 2011

Part II: Other Findings Related to Statutory Reporting Continued:

II-I-11 Financial Condition

Comment – The General Fund had a deficit balance of \$38,610, the Capital Projects Fund had a deficit balance of \$47,592, and the Sewer Fund had a deficit of \$7,347 at June 30, 2011.

Recommendation – The City should monitor the activity in these funds in order to eliminate the deficits. The City should control spending within budget limits and corresponding revenue sources.

Response – We will review this further and return these funds to a sound financial condition. The Capital Projects Fund deficit will be eliminated with grant reimbursements. We have made the following plans for the General Fund:

- a.) Purchase capital assets needed with the levy of debt.
- b.) Require each department to be responsible for cutting budget expenditures where possible.

Conclusion – Response accepted.

II-J-11 Inactive Capital Project

Comment – The Capital Projects Fund-Liberty Memorial Fund is inactive.

Recommendation – The City should make the appropriate transfer to close.

Response – We will do this when funds are available from the General Fund.

Conclusion – Response accepted.

II-K-11 Tax Increment Financing

Comment – The city has cash on hand of \$16,039 at June 30, 2011 in the Special Revenue, Tax Increment Financing Fund to pay for TIF debt no longer outstanding.

Recommendation – The City should consult bond counsel to determine the disposition of this issue.

The City should complete and provide TIF Certification Form 3 to the County Auditor to reduce the TIF indebtedness outstanding for the cash on hand in the Special Revenue, Tax Increment Financing Fund at June 30, 2011.

City of Malvern
Schedule of Findings
Year Ended June 30, 2011

Part II: Other Findings Related to Statutory Reporting Continued:

II-K-11 Tax Increment Financing - Continued

Response – We will consult bond counsel and submit TIF Certification Form 3 to the County Auditor to reduce the TIF indebtedness outstanding.

Conclusion – Response accepted.



Marilyn Schroer, CPA
Diane McGrain, CPA
Jim Menard, CPA

November 14, 2011

Shari Mueller
City of Malvern
501 Main
Malvern, IA 51551

Dear Shari:

Enclosed are copies of the City of Malvern's Annual Report for publication.

Please sign and forward to the State Auditor in the envelope provided.

Sincerely,

SCHROER & ASSOCIATES, P.C.


Kelsey Dahir
CPA

KD/sh
Enc.

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